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DDI- 5452/82

SUBJECT: Middle East Trends

1. The confluence of two major and many minor events has brought us once again to a turning point in the Middle East. Further, the outcome of neither major event -- the Lebanon crisis and the future of Iran -- is totally clear at this juncture.

2. In Lebanon: If a face-saving solution for a greatly weakened PLO is found under American auspices, then opportunities vaguely akin to the saving of the Egyptian Third Army after the 1973 war may occur. On the contrary, if the PLO is militarily decimated and humiliated, a series of negative trends will likely be set in motion. In the former case, we can anticipate:

- Removal of the Lebanese flashpoint in Arab-Israeli relations.
- Removal of the PLO as an armed element.
- Weakening of the Syrian factor in Arab-Israeli relations.

In the latter case:

- International Palestinian terror will recur and the pragmatic PLO leadership radicalized.
- Immediate actions by moderate Arab states to downgrade the visibility and substance of their relationship with us will occur, despite our relative invulnerability at this time to the effects of petroleum cutbacks. The Saudis will consider relations with the Soviets, although they would prefer not to do this.
- The simplistic appeal of fundamentalism will increase among Arab youth, and increasingly threaten moderate Arab regimes in Saudi Arabia, Jordan, Egypt, Tunisia, and Morocco.
- A renewed Palestinian threat to Jordan - already 60% Palestinian could occur.
- A Palestinian subversive threat to vulnerable Gulf regimes - possibly in league with Shia dissident elements - may occur.

3. In Iran: The central regime in Iran has significantly strengthened its hold on the country, and this fact of life will be with us for the foreseeable future.

- Leftist or Soviet subversive elements are not in a position to assume control in Iran, even should Khomeini die.
- The process of consolidation is occurring at a time when little Western political, military, or economic counterbalance to increasing functional Soviet ties with Iran are occurring.
- Although we judge that Iran at this time will not attack Iraq in the conventional sense, its victory there has bestowed the regime with a sense of invulnerability which could have longer-term implications.
- We judge the regime will in fact pursue its self-proclaimed expansionist mission, and that its targets for expansion by subversion are the vulnerable Gulf Arab states with large Shia minorities, plus Iraq.

4. The confluence of the Iranian Shia resurgence and a possible Palestinian defeat without face-saving measures increases the dangers listed above:

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- The Iranians are the exemplar of successful fundamentalism. A Palestinian humiliation would be a catalyst for fundamentalism in the Arab world, including Sunni Muslims.

- The Shia have a demonstrated interest in overthrowing the existing order in the petroleum-rich Gulf. If humiliated, the Palestinians could develop a similar interest. The combining of these two forces on the vulnerable targets of Bahrain, Kuwait, Qatar, UAE, and Saudi Arabia's eastern province would be extremely dangerous.

- Although both movements proclaim independence from outside influence, the Palestinians are heavily dependent on Soviet support. The Iranians are far less hostile to the Soviets than to the West. This situation enhances Soviet opportunities in the Middle East in the longer term, should Shia-Palestinian revolutionary trends strengthen and merge.

5. Note should be made of a possible silver lining in this situation. Should the Palestinians be honorably rescued from decimation in Lebanon by United States intermediary efforts, moderate policies of various Arab governments and organizations will have been vindicated. Also, the strengthened Iranian regime, over time, may well develop less revolutionary and more moderate tendencies. In these cases, the dire consequences forecast above would be considerably slowed.

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